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Powering up energy investments in fragile states

On [24 February, 2021](#), IGC's Council on State Fragility and the g7+ Group of 20 fragile and conflict-affected countries launched the Call to Action: Powering up energy investments in fragile states. On this occasion, Ellen Johnson Sirleaf (former President of Liberia), Namita Vikas (Founder and managing Partners, auctusESG), David Cameron (Former Prime Minister, United Kingdom), Maeen Abdulmalik Saeed (Prime Minister of Yemen), and Francis Mustapha Kai-Kai (Minister of Planning and Economic Development, Sierra Leone) to discuss how energy access in fragile states is vital to COVID-19 recovery and how governments, development practitioners, and the private sector can work together to achieve universal energy access in fragile states.

Extreme poverty and climate change will continue to be the two most pressing issues in the post-COVID-19 world. Today, [over 800 million people](#) worldwide lack access to electricity, which traps them in extreme poverty and vulnerability. More than three-quarters of them live in fragile and conflict-affected settings, where lack of access to electricity places further barriers to escaping conflict, weakens delivery of basic services and the ability to engage in productive economic activities, and heightens the vulnerability of the local population to health and economic shocks. In turn, this further contributes to intensifying global challenges, such as mass migration and terrorism.

Why is expanding renewable energy access an urgent priority in fragile settings?

Energy access gaps in fragile states are large and widening, posing significant risks to the intensification of extreme poverty, migratory crises, and conflict outbreaks. On the other hand, expanding energy access can play an important role to address systemic fragilities by promoting trust in government and social cohesion, enabling peace dividends through job creation, and supporting livelihoods.

Greater access to clean, affordable, and reliable energy sources can also improve women's – and children's – health, safety, and equality and financial independence by reducing time spent cooking and collecting firewood, eliminating exposure to household air pollution caused by burning biomass fuels on inefficient stoves, and by creating income-generating opportunities, such as activities that can be run from their homes.

Ultimately, widespread energy access can create a virtuous cycle of government activity through revenue collection from energy. This is likely to happen mainly indirectly through energy's growth-enhancing impacts that can broaden the tax base and raise the productivity and profitability of firms, which it then can be used to improve public service delivery.

Finally, scaling access to renewable energy in particular can help mitigate the effects of climate change, pollution, and deforestation which are especially pressing issues in fragile settings, as well as support climate adaptation strategies of local communities.

Yet, the world is failing to mobilise sufficient investment to overcome access gaps and attain universal electricity access in fragile environments. Indeed, in 2018, [more than twice](#) as much overseas development assistance (ODA) towards energy went to non-fragile settings than fragile ones. While fragile contexts may pose unique challenges to the disbursement and use of energy finance, such as poorly developed public and private sectors to absorb and manage it and higher perceived commercial risks, it is in these places that investment in green energy is most urgent and could yield the greater benefits.

What needs to be done?

In fragile states, energy access can be hampered by low government financial and technical capacity to provide and manage the energy supply, insufficient infrastructure and poor maintenance, and armed conflict disrupting imports, production, and distribution networks, or forcing outages. [Additional constraints](#) may include fluctuating currencies, prolonged construction time, and underdeveloped energy markets. Due to these barriers, traditional models, common in non-fragile settings, may not work in fragile contexts. Specifically, large-scale, centralised energy sources are [subject to physical damage](#) in conflict zones, are expensive to build, and require ongoing maintenance and a minimum level of state capacity to manage them. Concentration of power generation also means that control of the grid is similarly concentrated, predisposing centralised grid systems to corruption, which is often acute in these environments.

Still expanding energy access remains a critical way to power socioeconomic opportunities, reduce poverty, and fight fragility. In particular, **distributed renewable energy solutions**, especially solar photovoltaic (PV), hold much potential in highly fragile environments because: they are modular, and thus scalable; disperse risk, making energy systems less vulnerable to the single point of failure risks associated with large-scale centralised projects; allow for a diversified and local supply, reducing reliance on imports and improving resilience; can be managed and operated by households, communities, or private firms, lowering demands on government capacity which is often weak, among other factors.

Not only is distributed renewable energy good for the planet, well-suited to fragile settings, and critical to escape fragility and achieve greater economic development, but it is now [cheaper, efficient, and](#)

more accessible than fossil fuels thanks to technological improvements, greater economies of scale, more competitive supply chains, and strong firm-level know-how compared to the past.

Who needs to be involved?

In most fragile contexts, governments may lack the finance and capacity to deliver reliable and affordable energy to its population alone. This means that new global commitments and partnerships across a wide range of stakeholders are needed to catalyse funding and technical support for energy investments in fragile contexts.

- **Donors** will be essential for mobilising and injecting concessional and grant, risk-taking finance into existing and new lending facilities, especially by expanding the balance sheets of multilateral development banks.
- **Development finance institutions** (DFIs) would need to invest in developing pipelines of bankable projects and in improving the regulatory and enabling environment that can facilitate private investor entry in fragile markets at de-risked terms. Here, aid finance could be leveraged to cover the costs of project preparation and de-risking, leveraging DFIs' ability to accept lower rates of return to take on investments that others cannot make
- The **private sector** could employ its resources, expertise, and management efficiency needed to achieve investment scale. But high commercial risk-return thresholds, typical of fragile settings, reduce firms' incentives to invest in markets affected by fragility and conflict. This is why innovative financing mechanisms and partnerships with development stakeholders are needed to allow private investors to participate on de-risked terms, including the strategic use of grant and blended finance, currency risk management instruments, Political Risk Insurance (PRI), and pay-as-you-go payment solutions.
- **National governments** should work to improve energy markets by developing sound regulatory frameworks, committing to transparency and the rule of law so to reduce perceived risks by investors, introducing financial incentives to encourage adoption of renewable technologies, facilitating legal and technical procedures for the connection of mini-grids to the national grid. The public sector could also lead by example, adopting renewable energy sources for government buildings, such as schools, hospitals, and office buildings.

In conclusion, green energy is now more affordable and accessible than ever. Scaling up energy investments in fragile states will make the world safer by decreasing the risks associated with the lack of energy access, including extreme poverty, mass migration, and terrorism. It will also increase stability and economic opportunities for people living in fragile contexts, and support COVID-19 recovery in these contexts. Now more than ever, a collective global push for increased energy access in fragile states is critical, but also possible.

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Read and download the policy paper and Call to Action document at fragilitycouncil.org.